

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

ARMADA FREE PUBLIC LIBRARY

Armada, Michigan
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
PREPARED IN ACCORDANCE WITH GASB 34
December 31, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1966, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name ARMADA FREE PUBLIC LIBRARY	County MACOMB
Fiscal Year End 12/31/2007	Opinion Date 05/30/2008	Date Audit Report Submitted to State 06/23/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

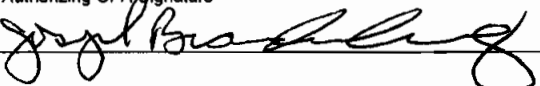
SE 2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS #114 LETTER	
Certified Public Accountant (Firm Name) BUSS & COMPANY, P.C.		Telephone Number 586-263-8200	
Street Address 42550 GARFIELD, SUITE 105		City CLINTON TWP.	State MI
		Zip 48038	
Authorizing CPA Signature 		Printed Name JOSEPH BRANDENBURG	License Number 1101020178

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Armada, Michigan
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INDEPENDENT AUDITOR'S REPORT

May 30, 2008

Board of Trustees
Armada Free Public Library
Armada, Michigan

Honorable Members:

We have audited the accompanying financial statements of the Armada Free Public Library, as of December 31, 2007, and for the year then ended. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I A, the financial statements present only the Armada Free Public Library and are not intended to present fairly the financial position and changes in financial position for the year then ended of the Township of Armada, County of Macomb, Michigan, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Armada Free Public Library as of December 31, 2007, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BUSS & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Board of Trustees
Armada Free Public Library
May 30, 2008
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The management's discussion and analysis on pages 3 through 4 and budgetary comparison schedule on page 16, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Respectfully,

BUSS & COMPANY, P.C.


Certified Public Accountants

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ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007

Using this Annual Report

This annual report consists of three parts - *Management's discussion and analysis* (this section), the *basic financial statements*, and *required supplemental information*. The basic financial statements include information that presents two different views of the Library:

- The *government-wide financial statements* provide both *long-term* and *short-term* information about the Library's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.
- The *governmental fund financial statements* include information on the Library under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplemental information* that further explains and supports the information in the financial statements.

Condensed Financial Information

In a condensed format, the table below shows a comparison of key financial information for the current year to the prior year.

	<u>2007</u>	<u>2006</u>
Current assets	\$ 576,841	\$ 560,308
Capital assets	<u>571,991</u>	<u>510,749</u>
Total Assets	<u>\$1,148,832</u>	<u>\$1,071,057</u>
Other liabilities	<u>\$ 268,013</u>	<u>\$ 258,610</u>
Total Liabilities	<u>\$ 268,013</u>	<u>\$ 258,610</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 571,991	\$ 510,749
Unrestricted	<u>308,828</u>	<u>301,698</u>
Total Net Assets	<u>\$ 880,819</u>	<u>\$ 812,447</u>
Revenue:		
Property taxes	\$ 246,585	\$ 230,749
Other	<u>37,922</u>	<u>35,442</u>
Total Revenue	\$ 284,507	\$ 266,191
Expenses - Library services	<u>216,135</u>	<u>239,733</u>
Change in Net Assets	<u>\$ 68,372</u>	<u>\$ 26,458</u>

(Continued)

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
December 31, 2007

The Library as a Whole

- The Library's net assets increased by \$68,372 this year. The primary reason for the increase is the growth of the Library's property tax base, which increased 6.9% from the prior year.
- The Library's primary source of revenue is from property taxes, which represents 87% of total revenue.
- Total expenses were 76% of total revenue for 2007. Salaries amount to approximately 50% of total expenses.

The Library's Fund

Our analysis of the Library's fund is included on pages 7 and 9. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages. All of the Library's activities are reported in a single fund.

The fund balance of the Library increased during the current year by \$7,370. The increase exceeded the budgeted decrease of \$52,000 by \$59,370. Budgeted revenues exceeded actual revenues by \$7,493. Budgeted expenditures exceeded actual expenditures by \$66,863 due primarily to over estimating the costs of salaries and wages, capital outlay, and building repairs and maintenance.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant changes were in maintenance and capital outlay.

Capital Assets

At the end of the fiscal year, the Library had \$1,084,397 invested in land, buildings and improvements, furniture and fixtures, equipment, and books and materials. The Library added \$114,742 in new collection items consisting of new books, audio/visual materials, computer equipment, and building improvements.

Economic Factors and Considerations for Next Year

The Library's tax base continues to increase with the growth of the Township. We, however, need to continue to watch our budget very closely. Expenditures that will be especially important in the coming year include employee compensation, because it is such a significant portion of the Library's operating budget.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library Director, at 73930 Church Street, Armada, Michigan 48005.

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
STATEMENT OF NET ASSETS
December 31, 2007

Exhibit 1

ASSETS

Cash and cash equivalents	\$ 103,773
Certificates of deposit	156,503
Taxes receivable	258,228
Due from other governmental units	53,172
Prepays and other assets	5,165
Capital assets	<u>571,991</u>
 Total Assets	 <u>\$1,148,832</u>

LIABILITIES

Accounts payable and accrued liabilities	\$ 4,348
Accumulated employee benefits	5,437
Deferred revenue	<u>258,228</u>
 Total Liabilities	 <u>\$ 268,013</u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 571,991
Unrestricted	<u>308,828</u>
 Total Net Assets	 <u>\$ 880,819</u>

See accompanying notes to financial statements.

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
STATEMENT OF ACTIVITIES
Year Ended December 31, 2007

		<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE)</u>
		<u>CHARGES FOR</u>		<u>REVENUE AND CHANGES</u>
	<u>EXPENSES</u>	<u>SERVICES</u>	<u>OPERATING GRANTS</u>	<u>IN NET ASSETS -</u>
				<u>GOVERNMENTAL</u>
				<u>ACTIVITIES</u>
<u>FUNCTION/PROGRAM:</u>				
Governmental Activities:				
Library services/operations	<u>\$216,135</u>	<u>\$ 7,002</u>	<u>\$ 4,916</u>	<u>(\$204,217)</u>
<u>GENERAL REVENUES:</u>				
Property taxes				\$246,585
State revenues				11,844
Interest on investments				<u>14,160</u>
Total General Revenues				<u>\$272,589</u>
CHANGE IN NET ASSETS				\$ 68,372
<u>NET ASSETS:</u>				
Beginning of year				<u>812,447</u>
End of year				<u>\$880,819</u>

See accompanying notes to financial statements.

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
COMPARATIVE BALANCE SHEET
December 31, 2007 and 2006

Exhibit 3

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$103,773	\$ 89,949
Investments	156,503	149,159
Taxes receivable	258,228	245,078
Prepaid expense	5,165	4,997
Due from other governmental units	<u>53,172</u>	<u>71,125</u>
Total Assets	<u>\$576,841</u>	<u>\$560,308</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES:</u>		
Accounts payable	\$ 3,574	\$ 5,130
Accrued payroll and payroll taxes	774	3,205
Deferred Revenue - Property taxes	<u>258,228</u>	<u>245,078</u>
Total Liabilities	<u>\$262,576</u>	<u>\$253,413</u>
<u>FUND BALANCE:</u>		
Reserved for prepaid expense	\$ 5,165	\$ 4,997
Unreserved, Undesignated	<u>309,100</u>	<u>301,898</u>
Total Fund Balance	<u>\$314,265</u>	<u>\$306,895</u>
Total Liabilities and Fund Balance	<u>\$576,841</u>	<u>\$560,308</u>

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
RECONCILIATION OF FUND BALANCE TO THE STATEMENT OF NET ASSETS
For The Year Ended December 31, 2007

TOTAL FUND BALANCE - MODIFIED ACCRUAL BASIS \$314,265

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds:

The cost of capital assets is	\$1,084,397
Accumulated depreciation	(512,406)

Total	\$71,991
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Accumulated employee leave benefits are not due and payable in the current period and therefore are not reported in governmental funds	(5,437)
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NET ASSETS - FULL ACCRUAL BASIS \$880,819

See accompanying notes to financial statements.

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For The Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>REVENUES:</u>		
Property taxes	\$246,585	\$230,749
Penal fines	6,797	8,576
State aid	5,047	4,612
Library fines	2,780	2,998
Interest and investment earnings	14,160	11,224
Lost and damaged material	48	227
Gifts and memorials	960	1,145
Copy machine	707	575
Facsimile machine	352	323
Miscellaneous	2,155	596
Centralized purchasing credit	<u>4,916</u>	<u>5,166</u>
Total Revenues	<u>\$284,507</u>	<u>\$266,191</u>
<u>EXPENDITURES:</u>		
Current:		
Salaries	\$108,564	\$102,768
Payroll taxes	8,305	7,862
Library materials	26,721	27,492
On-line database	1,764	3,678
Utilities	12,156	10,676
Telephone	1,424	1,353
Supplies	6,571	5,803
Insurance and bonds	6,718	7,508
Building repair and maintenance	16,080	19,937
Staff development, membership, and travel	1,944	1,967
Audit and other professional fees	3,323	3,040
Program fees	1,542	792
Automated services	18,874	18,874
Cooperative services	2,524	2,306
Miscellaneous	453	691
Capital outlay	<u>60,174</u>	<u>49,556</u>
Total Expenditures	<u>\$277,137</u>	<u>\$264,303</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ 7,370	\$ 1,888
FUND BALANCE - JANUARY 1	<u>306,895</u>	<u>305,007</u>
FUND BALANCE - DECEMBER 31	<u>\$314,265</u>	<u>\$306,895</u>

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.
 CERTIFIED PUBLIC ACCOUNTANTS
 CLINTON TOWNSHIP, MICHIGAN

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2007

NET CHANGE IN FUND BALANCE - MODIFIED ACCRUAL BASIS \$ 7,370

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation expense.

Capital outlay	\$114,742	
Depreciation expense	(53,500)	
 Total		 61,242

Expenses for employee leave benefits are recorded when earned in the statement of activities:

Reversal of employee leave benefits earned in prior years	\$ 5,197	
Employee leave benefits at year end	(5,437)	
 Total Effect of Employee Leave Benefits		 (240)

CHANGE IN NET ASSETS - FULL ACCRUAL BASIS \$ 68,372

See accompanying notes to financial statements.

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Armada Free Public Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

A. GOVERNMENTAL REPORTING ENTITY

The Library is located in the Township of Armada, Michigan and is governed by an elected six-member board. The Library was formed under P.A. 164 of 1877. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board and include only the results of operations of the Library.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in two parts - invested in capital assets, net of related debt; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues, and are reported instead as general revenue.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Library reports all of its activities in a single fund on the modified accrual basis.

(Continued)

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2007

C. ASSETS, LIABILITIES AND FUND EQUITY

Cash and Investments - The Library has defined cash and cash equivalents to include cash on hand, demand deposits and short-term investments with original maturities of three months or less. Investments are reported at fair value.

Receivables and Payables - Property taxes receivable represent uncollected property taxes levied on December 1, 2007.

Property taxes are levied on each December 1st on the taxable value of property (as defined by state statutes) located in Armada Township.

Although the Library's 2007 property tax is levied and collectible on December 1, 2007, it is the Library's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 taxable valuation of the Township totals \$244,637,708, on which ad valorem taxes levied consisted of 1.0577 mills for Library operations, raising \$258,228 for Library operating purposes. This amount is recognized in the financial statements as taxes receivable with an offsetting credit to deferred revenue. Taxes receivable has been reduced for amounts received during 2007.

Capital Assets - Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Due to the significance of the Library's annual acquisition of Library books and materials and the shelf life on most materials extended beyond two years, annual acquisitions of books and materials are treated as capitalized assets in order to spread their cost over their estimated useful life. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and equipment	5-20 years
Improvements	20-40 years
Library books and materials	7 years

Compensated Absences - Certain employees of the Library earn leave benefits on an annual basis. A liability for annual leave benefits has been accrued in the government-wide financial statements. A liability for these amounts is not reported in the General Fund as of year end.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

Reservations of equity show amounts that are not appropriate for expenditure or are legally restricted for specific uses.

(Continued)

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2007

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETS

An annual operating budget on the modified accrual basis of accounting consistent with generally accepted accounting principles is formally adopted for the Library. The budget can be amended by approval of the majority of the Board of Trustees. Amendments are presented to the Board at their regular meetings. All annual appropriations lapse at fiscal year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended December 31, 2007, the Library did not incur expenditures in budgeted line items that were in excess of the amounts appropriated.

III. DETAILED NOTES

A. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Library to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Library in accordance with Public Act 20 of 1943 (as amended) authorizes investments in U.S. Treasuries, U.S. Agencies, instrumentalities, certificates of deposit, commercial paper (meeting certain rating and maturity requirements), investment pools and mutual funds.

At year-end the Library's deposits and investments were reported in the basic financial statements in the following categories:

Cash and cash equivalents	\$103,773
Investments	<u>156,503</u>
Total	<u>\$260,276</u>

(Continued)

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2007

A. DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$260,276
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The Library's cash and investments are subject to certain types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk.

At year end, bank deposits were reflected in the accounts of the bank at \$266,620. Of that amount, \$158,275 was covered by federal depository insurance and \$108,345 was uninsured and uncollateralized. The Library believes that due to dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution it deposits Library funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

B. DUE FROM OTHER GOVERNMENTAL UNITS

The balance at December 31, 2007 consists primarily of amounts due from Armada Township.

C. CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2007 follows:

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>ENDING BALANCE</u>
<u>NON-DEPRECIABLE ASSETS:</u>				
Land	\$ 37,500	\$ -	\$ -	\$ 37,500
<u>DEPRECIABLE ASSETS:</u>				
Buildings and improvements	\$549,926	\$ 51,404	\$ -	\$ 601,330
Furniture and equipment	204,215	36,617	-	240,832
Circulating materials	202,834	26,721	24,820	204,735
Total Depreciable Assets	<u>\$956,975</u>	<u>\$114,742</u>	<u>\$ 24,820</u>	<u>\$1,046,897</u>
Total Assets	<u>\$994,475</u>	<u>\$114,742</u>	<u>\$ 24,820</u>	<u>\$1,084,397</u>
<u>ACCUMULATED DEPRECIATION:</u>				
Buildings and improvements	\$209,941	\$ 15,747	\$ -	\$ 225,688
Furniture and equipment	164,398	12,106	-	176,504
Circulating materials	<u>109,387</u>	<u>25,647</u>	<u>24,820</u>	<u>110,214</u>
Total Accumulated Depreciation	<u>\$483,726</u>	<u>\$ 53,500</u>	<u>\$ 24,820</u>	<u>\$ 512,406</u>
Total Capital Assets, Net	<u><u>\$510,749</u></u>	<u><u>\$ 61,242</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 571,991</u></u>

(Continued)

ARMADA FREE PUBLIC LIBRARY
Armada, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2007

IV. DEFERRED COMPENSATION PLAN

The Library has adopted a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or financial hardship.

The Library's plan administrator, ICMA Retirement Corporation, has created a trust and placed the plan assets within the trust. As a result, the plan assets are insulated from the Library's general creditors. Thus, the plan assets are not reported in the Library's financial statements as the Library does not have any fiduciary or administrative responsibility for the plan assets.

V. RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, unemployment benefits, as well as medical and workers' compensation benefits provided to employees. The Library has purchased commercial insurance to cover these losses.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION

ARMADA FREE PUBLIC LIBRARY
 Armada, Michigan
BUDGETARY COMPARISON SCHEDULE
For The Year Ended December 31, 2007

Schedule No. 1

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u> <u>AMOUNTS</u> <u>(BUDGETARY BASIS)</u>	<u>VARIANCE WITH</u> <u>FINAL BUDGET</u> <u>POSITIVE</u> <u>(NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<u>REVENUES:</u>				
Property taxes	\$245,000	\$245,000	\$246,585	\$ 1,585
Penal fines	7,000	7,000	6,797	(203)
State aid	6,000	6,000	5,047	(953)
State revenue sharing	6,000	6,000	-	(6,000)
Charges, fees and fines	8,000	8,000	4,847	(3,153)
Interest and investment earnings	8,000	11,000	14,160	3,160
Centralized purchasing credit	5,000	5,000	4,916	(84)
Miscellaneous	4,000	4,000	2,155	(1,845)
Total Revenues	<u>\$289,000</u>	<u>\$292,000</u>	<u>\$284,507</u>	<u>(\$ 7,493)</u>
<u>EXPENDITURES:</u>				
Salaries and wages	\$125,000	\$125,000	\$108,564	\$ 16,436
Payroll taxes	8,000	10,000	8,305	1,695
Library materials	30,000	30,000	26,721	3,279
Databases, on-line	4,000	4,000	1,764	2,236
Utilities	12,000	14,000	12,156	1,844
Telephone	2,000	2,000	1,424	576
Supplies	7,000	7,000	6,571	429
Insurance	8,000	8,000	6,718	1,282
Building repairs and maintenance	40,000	40,000	16,080	23,920
Staff development	4,000	4,000	1,944	2,056
Legal and accounting	3,000	4,000	3,323	677
Programs	2,000	2,000	1,542	458
Automated services	20,000	20,000	18,874	1,126
State aid payment	3,000	3,000	2,524	476
Miscellaneous	1,000	1,000	453	547
Capital outlay	20,000	70,000	60,174	9,826
Total Expenditures	<u>\$289,000</u>	<u>\$344,000</u>	<u>\$277,137</u>	<u>\$ 66,863</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>(\$ 52,000)</u>	<u>\$ 7,370</u>	<u>\$ 59,370</u>

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.

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Randy A. Carlier, C.P.A.

May 30, 2008

MEMBERS
The American Institute of
Certified Public Accountants

The Michigan Association of
Certified Public Accountants

To the Library Board
Armada Free Public Library
Armada, Michigan

Re: Supplemental System and Internal
Control Comments and Recommendations
in conjunction with audit for the year
ended December 31, 2007

Honorable Members:

In planning and performing our audit of the financial statements of Armada Free Public Library for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. The following items are presented that could affect Armada Free Public Library's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Budgeting

The Library has established an effective budgeting process which is used to control expenditures. We have reviewed the budgets for compliance with the Uniform Budgeting and Accounting Act P.A. 621 of 1978. The act requires that expenditures in a specific appropriations account beyond the amount of the original budget (general appropriations act), be approved by the Board with a transfer or supplemental appropriation. During the year ended December 31, 2007, the Library did not incur expenditures in excess of the amounts appropriated by the Board in any accounts.

Fund Balance

During 2007, the Library's General Fund revenues exceeded expenditures by \$7,370. As a result, General Fund equity increased to \$314,265 at December 31, 2007.

A portion of the fund equity, \$5,165, is reserved for prepaid expenses and \$309,100 is unreserved and undesignated. By maintaining an appropriate fund equity, the Library is able to meet unforeseen circumstances without affecting the level of programs for the year. The Library's unreserved, undesignated fund equity is equal to approximately 112% of expenditures, or 58 weeks of operation.

This communication is intended solely for the information and use of the Board of Trustees, management, and others within the administration of the Armada Free Public Library. This restriction is not intended to limit distribution of this report which, upon acceptance by the Board of Trustees, is a matter of public record.

We appreciate the cooperation of the Library staff and trustees during our audit.

Respectfully submitted,

BUSS & COMPANY, P.C.

A handwritten signature in cursive script that reads "Buss & Company, P.C.".

Certified Public Accountants

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MEMBERS
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May 30, 2008

Board of Trustees
Armada Free Public Library
Armada, Michigan

We have audited the financial statements of Armada Free Public Library for the year ended December 31, 2007, and have issued our report thereon dated May 30, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 15, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Armada Free Public Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our discussions about planning matters with Margaret Smith, Director, as reflected in our engagement letter dated January 15, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Armada Free Public Library are described in Note I to the financial statements. No new significant accounting policies were adopted and the application of existing policies were not changed during 2007. We noted no transactions entered into by the Library during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no estimates affecting the financial statements which were deemed sensitive in nature.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 30, 2008, a copy which is available from management.

Board of Trustees
Armada Free Public Library
May 30, 2008
Page 3

Management Consultations with other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Library's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of Armada Free Public Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

BUSS & COMPANY, P.C.

A handwritten signature in cursive script that reads "Buss & Company, P.C.".

Certified Public Accountants